MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

T2, 2017/2018

BCF7044 – CORPORATE FINANCE

(MBA Full Time)

30 JANUARY 2018
9.00 a.m – 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FIVE (5)** printed pages including cover page.
2. Answer **ALL** questions.
3. Marks are shown at the end of each question.
4. Please write your answers in the **Answer Booklet** provided.

Question 1 (25 Marks)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	RM'000	RM'000
Non-current assets		10093
Investment		831
Current assets	3668	
less current liabilities	1745	
		1923
		12847
Ordinary share capital		
Auhorised: 4,000,000 shares RM1		
Issued :3,000,000 shares RM 1		3000
Reserves		6552
Shareholders' fund		9552
7% debenture		1278
Deferred taxation		593
Corporation tax		1424
		12847

SUMMARY OF PROFITS AND DIVIDENDS

Year ended 30th June	2013 RM'000	2014 RM'000	2015 RM'000	2016 RM'000	2017 RM'000
Profit after interest and before tax	1747	2100	1950	1876	2189
Less tax	583	700	650	626	729
	1164	1400	1300	1250	1460
Less: Dividends	630	690	750	750	820
Added to reserves	534	710	550	500	640

- The current (1 July 2017) market value of Anasz Inc's ordinary shares is RM 3.27 per share cum dividend.
- An annual dividend of RM 820,000 is due for payment shortly .
- The debentures are redeemable at par in 10 years' time. Their current market value is RM 77.10 per cent. Annual interest has just been paid on the debentures.

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- There have been no issues or redemptions of ordinary shares or debentures during the past five years. The current rate of corporation tax is 30%, and the current basic rate of income tax is 25%. Assume that there been no changes in the system or rates of taxation during the last 5 years.

Required:

a) Estimate the cost of capital which Anasz's Inc should use as a discount rate when appraising new investment opportunities.

(19 marks)

b) Discuss any uncertainties in your estimates.

(6 marks)

Question 2 (25 Marks)

a) ABC plc is considering investing in a new project in Canada which will have a life of 4 years. The initial investment is C$120,000 including working capital. The net after tax cash flows which the project will generate are C$70,000 per annum for years 1,2 and 3 and C$55,000 in year 4. The terminal value of the project is estimated at C$40,000, net of tax.The current spot rate of Canadian dollars against the pound sterling is 1.5890.Economic forecasters expect the pound to strengthened against the Canadian dollar by 5% per annumover the next 4 years. The company evaluates UK projects of similar risk at 14%.Calculate the NPV of the Canadian project .

(12 marks)

b) Explain the Modigliani–Miller propositions I without taxes concerning capital structure, and its benefits to borrowing versus using equity as a source of capital.

(4 marks)

c) What is the cost of asymmetric information when firms issues equities as source of capital?

(4 marks)

Continued...

d) Discuss Modigliani–Miller propositions II with taxes and its effect on firms' Weighted Average Cost of Capital and firms' value? Discuss both the value of unlevered and levered firms if EBIT is $25 million and debt is $75 million. Cost of debt is 9% and the unlevered cost of capital is 12% (Tax rate is 35%).

(5 marks)

Question 3 (25 Marks)

a) Currently shareholders' wealth maximization is the major goal of ABC Limited. Nonetheless the directors think that management should also give emphasis on several factors that influence firms operating activities such as performance improvement in a number of areas such as concern for the environment, employees' remuneration and quality of working conditions and customer satisfaction. Discuss whether you disagree or agree with this statement.

(8 marks)

b) Give examples on managerial actions that override the interest of stockholder.

(5 marks)

c) Define Ex-dividend Date and analyse the impact of Ex-dividend on the stock price with detail example.

(4 marks)

d) Discuss the advantages of stock purchase against dividend for the shareholders.

(4 marks)

e) You are required to compute the dividend amount based on the following information.

- Company require RM10 million for new investments
- Target capital structure: Debt/Equity = 2/3
- Net Income = RM8 million

(4 marks)

Continued...

Question 4 (25 Marks)

a) Discuss the Sources of Cash and Uses of Cash for corporation.

(10 marks)

b) Following is the financial Information given of Kamitsi Campany for the year 2008.

	April	May	June
Credit Sales	350,000	290,000	400,000
Credit Purchase	168,000	148,000	192,000
Cash Payment			
Wage	85,200	78,800	84,000
Interest	9,000	9,000	8,000
Equipment	25,000	49,000	152,000

Additional information:

1) The company predicts 10% of the credit sale is uncollectible, 40% collect in the month of sale and 50% collect in the following month.
2) Credit purchase will be paid in the month following the purchase.
3) In March 2008, credit sales were RM300,000, credit purchase were RM152,000.
4) Cash at the end of March were RM150,000.

Prepare a cash budget for the month April, May and June.

(15 marks)

End of Paper